

Message Text

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PAGE 01 BERN 04022 171515Z

ACTION EUR-12

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TAGS: EFIN, SZ

SUBJ: SWISS FED COUNCIL & SWISS NATL BANK ON
ECONOMIC & MONETARY SITUATION

1. BEGIN SUMMARY: FED COUNCIL, TOP CIVIL SERVANTS,
MET WITH LEUTWILER, LANGUETIN, SCHUERMANN OF SNB
AUG 16 FOR LENGTHY DISCUSSION REPERCUSSIONS RECENT
RISE SF. COUNCIL HELD ADDITIONAL EXTRAORDINARY SESSION MORNING
OF 17. IN STATEMENT ISSUED 12 NOON AUG 17, COUNCIL
SAID SIZE INCREASE UNJUSTIFIED BY ANY ECONOMIC
FACTS, WILL LEAD TO INCREASING DIFFICULTIES FOR SWISS
ECONOMY, REQUIRES CONCERTED ECONOMIC ACTION BY OECD
COUNTRIES. COMMUNIQUE STATES UNILATERAL MEASURES
UNDER PREPARATION FOR USE SHOULD RECENT EVENTS RESULT
IN LARGE FLUCTUATIONECONOMIC PERFORMANCE ACCOMPANIED
BY UNEMPLOYEMTN (NOW .3 PCT). SNB ASKED TO STUDY
MEASURES TO IMPROVE FUNCTIONING FOREX MARKET, NEW
MEASURES TO PROTECT AGAINST INFLUX FOREIGN FUNDS.
REJECTS PROTECTIONIST TRADE OR FINANCIAL ACTIONS.
SNB OFFICIAL TOLD US HE THOUGHT MARKET WOULD REACT
UNFAVORABLY SINCE NO CONCRETE MEASURES ANNOUNCED;
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PAGE 02 BERN 04022 171515Z

DOLLAR LIKELY FALL ADDITIONAL TWO OR MORE CENTIMES
DURING AFTERNOON TRADING. SAID SNB FORESAW NOTHING
US OR OTHER COULD DO WHICH WOULD BE DRAMATIC ENOUGH
TO HAVE REAL IMPACT. END SUMMARY.

2. MARKET HAS BEEN FULL OF RUMORS THAT DRASTIC
ACTION IMMINENT, FUELED BY ANNOUNCEMENT COUNCIL

MEETING, MEETING OF FOREX DEALERS WITH SNB VP LANGUETIN. ACCORDING SNB SOURCE, NEITHER MEETING COULD HAVE PRODUCED RUMORED RESULTS, NEITHER MEETING WITH FOREX DEALERS ONE OF MANY WHICH AHPPENED TO COME AT THIS TIME SO HE AT LOSS EXPLAIN PRESS SPECULATION IT RESPONSIBLE FOR APPRECIATION DOLLAR AUG 16. SAID THAT SINCE COUNCIL COMMUNIQUE CONTAINED NOTHING NEW, HE EXPECTED DOLLAR TO DROP TWO OR MORE CENTIMES BY END OF AFTERNOON TRADING ZURICH. HE SAW NO REASONABLE SHORT-TERM ACTION US OR OTHERS COULD TAKE WHICH WOULD BE DRAMATIC ENOUGH TO REVERSE FORCES DRIVING DOLLAR DOWN. BEST ONE COULD DO IS HANG ON, HOPE SWISS ECONOMY NOT BADLY DAMAGED, UNTIL LONGER-TERM FACTORS COULD OPERATE.

3. TEXT COMMUNIQUE (UNOFFICIAL EMBASSY TRANSLATION) AS FOLLOWS:

4. QTE FALL FOREIGN CURRENCIES, LARGE RISE SF CAUSE GRAVE CONCERN. TRADE-WEIGHTED INCREASE VALUE SF, 38 PCT IN ONE YEAR COMPARED TO CURRENCIES MAJOR TRADING PARTNERS AND 15.5 PCT AGAINST DOLLAR, 8.3 PCT AGAINST DM IN LAST MONTH, NO LONGER CORRESPOND TO ANY ECONOMIC REALITIES. EXPORT INDUSTRY, INTERNAL ECONOMY AND TOURISM ARE FACED WITH A RAPIDLY INCREASING NUMBER OF PROBLEMS.
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PAGE 03 BERN 04022 171515Z

A COUNTRY LIKE SWITZERLAND HAS LITTLE CHANCE OF INFLUENCING A SITUATION CAUSED BY INTL COMPLICATIONS. ELIMINATION OF DISRUPTION REQUIRES A PROGRAM OF CON- CERTED ECONOMIC ACTION, SUCH AS THAT DISUCSSED BY THE INDUSTRIALIZED COUNTRIES, NOTABLY IN THE OECD FRAMEWORK. FEDERAL COUNCIL HAS HELD LENGTHY DIS- CUSSIONS ON THAT PROGRAM AS WELL AS ON THE PROPOSAL FOR A EUROPEAN MONETARY SYSTEM HOWEVER, SUCH PROJECTS CAN ONLY PRODUCE RESULTS OVER THE LONG RUN. COUNCIL WILL MAKE EVERY EFFORT TO PROMOTE COOPERATION AND WILL DECIDE UPON THE ROLE SWITZERLAND CAN PLAY. THE MARGIN FOR MANEUVER FOR REASONABLE AND EFFECTIVE UNILATERAL MEASURES MUST BE USED WITH CARE. THE COUNCIL WILL EXAMINE AND PREPARE ECONOMIC AND FINANCIAL MEASURES IN ORDER TO MEET, IF REQUIRED, LARGE FLUCTUATION IN ECONOMIC ACTIVITY ACCOMPANIED BY LARGE (IMPORTANT) UNEMPLOYMENT... THE COUNCIL HAS ASKED SNB TO STUDY MEASURES DESIGNED TO IMPROVE FUNCTIONING OF EXCHANGE MARKETS. CHANGES IN ARRANGEMENTS FOR PROTECTING AGAINST INFLUX OF FOREIGN FUNDS WILL ALSO BE CONSIDERED. IN ADDITION, SNB WILL MAINTAIN A HIGH LEVEL OF

MONEY MARKET LIQUIDITY TO COMBAT SF APPRECIATION.
ON THE OTHER HAND, PROTECTIONIST MEASURES ON FOREIGN
TRADE OR NEW RESTRICTIONS IN MONETARY FIELD WILL
NOT IMPROVE SWISS ECONOMIC SITUATION, BUT ONLY
AGGRAVATE IT AS RESULT OF INTL REACTION TO
SUCH MEASURES. FOR SAME REASON ONE MUST NOT
INTERVENE (SUBSIDIZE) ONLY TO MAINTAIN EXISTING
STRUCTURES.

THE COUNCIL AND THE SNB'S APPRAISAL OF SITUATION
AND ROUTE TO FOLLOW IS IDENTICAL. UNQTE

5. EMBASSY COMMENT: MENTION, HOWEVER VAGUE,
OF ADDITIONAL ACTION TO COME IS LIKELY TO CAUSE
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PAGE 04 BERN 04022 171515Z

FURTHER APPRECIATION OF SF. SNB HAS PRETTY
WELL EXHAUSTED ITS POSSIBILITIES, SHORT OF
BASIC CHANGE IN POLICY. ANY SUCH CHANGE UNLIKELY UNLESS
TWO CONDITIONS MENTIONED IN COMMUNIQUE
OCCUR: A SHARP FALL IN LEVEL OF ECONOMIC
ACTIVITY ACCOMPANIED BY LARGE INCREASE IN UNEMPLOY-
MENT. CROWLEY

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